

[4830-01-P]

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DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

REG-143244-05

RIN 1545-BE93

Guidance under Section 7874 for Determining Ownership by Former Shareholders or Partners of Domestic Entities

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Notice of proposed rulemaking by cross-reference to temporary regulations and notice of public hearing.

SUMMARY: In the Rules and Regulations section of this issue of the **Federal Register**, the IRS is issuing temporary regulations relating to the disregard of affiliate-owned stock in determining the percentage of stock of a foreign corporation held by former shareholders or partners of a domestic entity, in order to determine whether the foreign corporation is a surrogate foreign corporation under section 7874 of the Internal Revenue Code (Code). The text of those regulations also serves as the text of these proposed regulations. This document also provides notice of a public hearing on these proposed regulations.

DATES: Written or electronic comments must be received by April 6, 2006. Outlines of topics to be discussed at the public hearing scheduled for April 27, 2006 at 10 a.m., must be received by April 6, 2006.

ADDRESSES: Send submissions to: CC:PA:LPD:PR (REG-143244-05), room 5203, Internal Revenue Service, PO Box 7604, Ben Franklin Station, Washington, DC 20044. Submissions may be hand-delivered Monday through Friday between the hours of 8 a.m. and 4 p.m. to: CC:PA:LPD:PR (REG-143244-05), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue, NW., Washington, DC, or sent electronically, via the IRS Internet site at: [www.irs.gov/regs](http://www.irs.gov/regs) or via the Federal eRulemaking Portal at [www.regulations.gov](http://www.regulations.gov) (IRS-REG-143244-05).

FOR FURTHER INFORMATION CONTACT: Concerning the proposed regulations, Jefferson VanderWolk at (202) 622-3810; concerning submission and delivery of comments and the public hearing, Robin R. Jones, (202) 622-7180 (not toll-free numbers).

#### SUPPLEMENTARY INFORMATION:

#### **Background and Explanation of Provisions**

Temporary regulations in the Rules and Regulations section of this issue of the **Federal Register** amend the Income Tax Regulations (26 CFR part 1) relating to section 7874. The temporary regulations set forth rules on disregarding affiliate-owned stock in determining the percentage of stock of a foreign corporation held by former shareholders or partners of a domestic entity by reason of holding stock or a partnership interest in the domestic entity, for purposes of determining whether the foreign corporation is a surrogate foreign corporation under section 7874(a)(2)(B). The text of those regulations also serves as the text of these proposed regulations. The preamble to the temporary regulations explains the amendments.

## **Special Analyses**

It has been determined that this notice of proposed rulemaking is not a significant regulatory action as defined in Executive Order 12866. Therefore, a regulatory assessment is not required. It has also been determined that section 553(b) of the Administrative Procedure Act (5 U.S.C. chapter 5) does not apply to these regulations and because these regulations do not impose a collection of information on small entities, the provisions of the Regulatory Flexibility Act (5 U.S.C. chapter 6) do not apply. Pursuant to section 7805(f) of the Code, this notice of proposed rulemaking will be submitted to the Chief Counsel for Advocacy of the Small Business Administration for comment on its impact on small business.

## **Comments and Requests for a Public Hearing**

Before these proposed regulations are adopted as final regulations, consideration will be given to any written comments (a signed original and eight (8) copies) or electronic comments that are submitted timely to the IRS. The IRS and Treasury Department specifically request comments on the clarity of the proposed regulations and how they can be made easier to understand. All comments will be available for public inspection and copying.

A public hearing has been scheduled for April 27, 2006, at 10 a.m., in the auditorium of the Internal Revenue Building, 1111 Constitution Avenue, NW., Washington, DC. Due to building security procedures, visitors must enter at the Constitution Avenue entrance. In addition, all visitors must present photo identification to enter the building.

Because of access restrictions, visitors will not be admitted beyond the immediate entrance area more than 30 minutes before the hearing starts. For information about having your name placed on the building access list to attend the hearing, see the **FOR FURTHER INFORMATION CONTACT** section of this preamble.

The rules of 26 CFR 601.601(a)(3) apply to the hearing. Persons who wish to present oral comments at the hearing must submit electronic or written comments and an outline of the topics to be discussed and the time to be devoted to each topic (a signed original and eight (8) copies) by April 6, 2006. A period of 10 minutes will be allotted to each person for making comments. An agenda showing the scheduling of the speakers will be prepared after the deadline for receiving outlines has passed. Copies of the agenda will be available free of charge at the hearing.

### **Drafting Information**

The principal author of these regulations is Jefferson VanderWolk of the Office of the Associate Chief Counsel (International). However, other personnel from the IRS and Treasury Department participated in their development.

### **List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and recordkeeping requirements.

### **Proposed Amendments to the Regulations**

Accordingly, 26 CFR part 1 is proposed to be amended as follows:

#### **PART 1--INCOME TAXES**

Paragraph 1. The authority citation for part 1 is amended by adding an entry in

numerical order to read, in part, as follows:

Authority: 26 U.S.C. 7805 \* \* \*

Section 1.7874-1 also issued under 26 U.S.C. 7874(c)(6) and (g). \* \* \*

Par. 2. Section 1.7874-1 is added to read as follows:

§1.7874-1 Disregard of affiliate-owned stock.

[The text of proposed §1.7874-1 is the same as the text of §1.7874-1T published elsewhere in this issue of the **Federal Register**].

Mark E. Matthews,  
Deputy Commissioner for Services and Enforcement.